

Q. PLEASE STATE YOUR NAME, OCCUPATION AND A DESCRIPTION OF YOUR BACKGROUND.

A. I am David Lacoste, and I am employed by the Public Service Commission of South Carolina as an Engineer (Associate) within the Commission's Utilities Department. I hold a BS Degree in Electrical Engineering from the University of South Carolina and am presently responsible for quality of service inspections and rate audits concerning services provided by South Carolina's 25 incumbent local exchange telecommunications companies. I am also extensively involved in the analysis of IXC / CLEC certification applications and the review of interconnection agreements.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS MATTER?

A. My testimony's purpose is to provide an assessment of the South Carolina Universal Service Fund (USF) study filing of Sprint / United Telephone Company.

Q. WHAT IS UNITED TELEPHONE REQUESTING?

A. United is asking for approval of reductions to Carrier Common Line and Local Switching rate elements as found in its Access Services tariff. 'Lost' revenue as a result of these rate reductions is to be recovered from the state Universal Service Fund, which was established by Commission Order No. 2001-419 in Docket No. 97-239-C.

Q. PLEASE PROVIDE AN OVERVIEW OF THE USF FUNDING PROCESS.

A. The Commission's Order indicates that implementation of the State USF is necessary to remove implicit support from rates and make the funding explicit. This will ensure the continuation of Universal Service (i.e., the provision of basic local exchange telephone service at affordable rates, upon reasonable request) to all residential and single-line business customers in South Carolina (Order # 2001-419, pg 32, par 3). Effective with this October 2001 Order, all South Carolina ILECs were required to reduce their intrastate switched access rates by 50% (from 6¢ to 3¢) and thus were eligible to receive support from the State USF. In order to receive additional funding beyond this initial step, any local exchange carrier applying for further reductions under the State USF must file detailed cost data with the Commission which clearly demonstrates that implicit support exists in the rates that are proposed to be reduced (Order # 2001-419, pg 35, par 12). However, if a company has already filed a study as part of Docket No. 97-239-C, results from these models do not need to be updated unless that LEC's State USF withdrawal

1 exceeds one third (1/3) of its company-specific State USF amount (Order # 2001-419, pg
2 42, par 22). United is now asking for a second phase of USF implementation.

3 **Q. PLEASE PROVIDE YOUR ASSESSMENT OF THE COST STUDY THAT**
4 **UNITED FILED TO SUPPORT ITS REQUEST FOR ADDITIONAL USF**
5 **FUNDING.**

6 A. The study that United prepared and filed addresses Local Switching costs. Carrier
7 Common Line (CCL) represents only usage based revenue; therefore there are no CCL
8 costs to be studied. The Local Switching study that United filed in support of this request
9 is very detailed and takes into account investment and usage costs associated with
10 switching functions such as processor, line cards, software, SS7 signaling and various
11 trunk expenses. Other Direct Cost (ODC) that are associated with miscellaneous plant
12 items are also identified within the study. This study indicates that cost per call
13 termination is \$0.004154, which is the rate (revised per Mr. Mitus' testimony) that is
14 being requested. For comparison purposes, my Exhibit I displays United's present and
15 proposed Carrier Common Line (CCL) and Local Switching rates compared with
16 presently approved rates charged by several other South Carolina ILECs or their affiliates.
17 The exhibit shows that United's proposed Local Switching rate is lower than any of the
18 other carrier rates. The annual revenue reduction that would result from this change is
19 \$1,130,411.

20 **Q. ARE DEPRECIATION EXPENSES IDENTIFIED WITHIN THIS STUDY?**

21 A. Yes. However, the depreciation rates that are used in the study are not depreciation rates
22 that have been approved by this Commission. My understanding is that the study rates are
23 based on forward looking cost methodology and were developed only for purposes of
24 computing the new Local Switching rate element.

25 **Q. IS THE FACT THAT DEPRECIATION RATES THAT THE COMPANY**
26 **DEVELOPED FOR THIS FILING ARE DIFFERENT FROM ITS COMMISSION**
27 **APPROVED DEPRECIATION RATES A CONCERN?**

28 A. Somewhat. I prepared a comparison of depreciation rates (Exhibit II). United's Economic
29 Study depreciation rates for Digital Switching and rates for the various Cable accounts are
30 relatively higher than United's approved rates and rates used by several other local
31 companies. Use of the lower approved depreciation rates could result in a slightly lower
32 Local Switching rate element, although this would result in a somewhat higher demand

1 for Universal Service Funding. Also, the economic lives that are shown in the study's
2 annual charge factors computations which were used to develop the depreciation rates are,
3 in my opinion, not sufficiently supported. As I stated earlier, my understanding is that the
4 depreciation rates shown in this study were developed solely for the purpose of
5 developing a Local Switching rate element that adequately covers forward looking cost.
6 The company is not asking to change its Commission approved depreciation rate
7 schedules.

8 **Q. PLEASE EXPLAIN THE IMPACT OF THESE CHANGES ON AREA CALLING**
9 **PLAN REVENUE (ACP).**

10 A. Revenue that is paid to United by the various local exchange companies that are involved
11 in ACPs is a function of distance, minutes of use, and the local switching rate. A formula
12 prescribed within the NECA tariff is used for the computation of these rates. Based on
13 2003 year end numbers, United's revised study shows a net revenue reduction in the
14 amount of \$57,858 in ACP revenue if the local switching rate element is reduced to the
15 proposed rate.

16 **Q. IN YOUR OPINION, HAS UNITED DEMONSTRATED ITS NEED FOR**
17 **ADDITIONAL USE FUNDING?**

18 A. With the exception of the question concerning the use of un-approved depreciation rates,
19 my overall opinion is yes. The study that has been filed indicates that implicit support
20 exists in the present Local Switching rate. In reducing this rate implicit support is being
21 reduced. Assuming that the proposed rate is approved, the resulting \$1,188,269 of 'lost'
22 annual revenue will qualify for additional state Universal Service Funding.

23 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

24 A. Yes, It does.